

AR09

K I L E M B E

COPPER COBALT LTD.

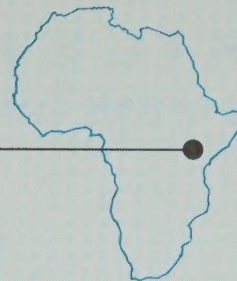


annual report

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REVIEW IN BRIEF

	<u>1967</u>	<u>1966</u>
Tons milled	953,090	1,027,247
Tons direct smelted	8,913	12,275
Total tons treated	962,003	1,039,522
Grade ore milled	1.91	1.91
Blister copper produced — long tons	14,198	15,844
Sales of metals	\$17,927,000	\$21,927,000
Operating profit	\$ 5,027,000	\$ 9,474,000
Net earnings	599,000	\$ 3,435,000
Earnings per share	\$.15	\$.89
Average selling price, copper per pound	56¢	64.4¢



HEAD OFFICE

7 King Street East, Toronto, Canada

OFFICERS

G. T. N. WOODROOFFE - - - - - President
*G. P. MITCHELL - - - - - Vice-President
A. C. CALLOW - - - - - Secretary
R. G. SAUNDERS - - - - - Treasurer

*effective March, 1968

DIRECTORS

G. P. MITCHELL P. N. PITCHER
E. L. HEALY J. T. McWHIRTER
G. T. N. WOODROOFFE

**TRANSFER AGENTS
AND REGISTRARS**

CROWN TRUST COMPANY
302 Bay Street, 393 St. James St. West,
Toronto, Ontario Montreal, Quebec
REGISTRAR AND TRANSFER COMPANY
140 Cedar Street - - - - New York 7, N.Y.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

SOLICITORS

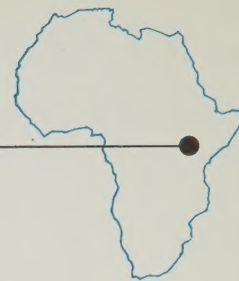
TILLEY, CARSON, FINDLAY & WEDD, Toronto, Ontario

**KILEMBE MINES
LIMITED**

Head Office, Kilembe, Uganda
Chairman of the Board and
Managing Director - - - - A. E. PUGSLEY

ANNUAL MEETING OF SHAREHOLDERS

Friday, April 26, 1968 at 10.30 a.m. (E.S.T.)
Elizabeth Room, King Edward Sheraton Hotel
Toronto, Canada



REPORT OF THE DIRECTORS

To the Shareholders:

Net consolidated earnings of your Company and its subsidiary, Kilembe Mines Limited, for 1967 decreased to \$598,946 or 15 cents per share from \$3,434,914 or 89 cents per share in 1966.

PRODUCTION

Mining

The tonnage of ore delivered from the mine during the year decreased by 77,243 short tons to 961,737 short tons compared to the previous year, mainly as a result of the difficulties encountered in the necessary change required in the mining methods from open stoping to cut and fill stoping. In addition, a shortage of qualified and experienced personnel was a very contributing factor in the delays in effecting the change of mining procedure. However, that changeover has now been completed and a gradual improvement in mine production is expected.

Milling

Mill tonnage for the year decreased, but feed grade remained the same at 1.91% copper. Recovery of copper in concentrates dropped from 92.35% to 91.81% due to the greater proportions of mill feed than last year coming from semi-oxidized ore from the upper levels of the mine and of pyrite ore from Bukangama. Concentrate grade decreased from 29.4% to 28.6% copper.

Smelting

Blister copper production decreased by 1,646 long tons to 14,198 long tons. The smelter was shut down for 22 days during August to effect necessary repairs to the furnace and stack. This shut down was planned for 1968, but premature failing of the furnace lining required early action. During the shut down period production of copper concentrates continued normally. Despite a concerted effort to treat the said concentrates before year-end, this was not accomplished, and the inventory of copper concentrates at year-end increased by 362 long tons to a total of 634 long tons.

FINANCIAL

Lower blister copper production together with a lower price received for copper were the principal factors for the decrease in earnings.

The average price received during the year was equivalent to 56¢ Canadian compared to 64¢ Canadian in 1966. All copper was sold on the basis of the London Metal Exchange average monthly selling price.

All production costs were higher due partly to the continuing rise in the cost of labour and supplies. Also included in these costs is an expenditure of \$521,000 for shaft sinking in the Bukangama

and the Stream Ore Deposit. The conversion to cut and fill mining also contributed to the increasing mining costs. Because of the lower shipments of blister copper, marketing and refining costs were reduced considerably; this reduction, however, was offset by increases in other cost centres.

In view of the decrease in earnings, dividends totalling 25 cents per share were paid during the year compared to \$1.05 per share in 1966.

Expenditures on fixed assets were substantially reduced, with about two-thirds of these expenditures being made for mining and milling equipment.

Working capital at year-end amounted to \$3,008,963 compared to \$2,585,103 for the prior year.

ORE RESERVES

The estimated ore reserves at year-end compared with the previous year as shown in the following tabulation:

	1967		1966	
	Tons	% Copper	Tons	% Copper
Proved	4,727,000	1.99	5,244,000	1.97
Probable	1,870,000	2.20	1,209,000	2.07
	<u>6,597,000</u>	<u>2.04</u>	<u>6,453,000</u>	<u>1.91</u>

The significant increase in the probable ore reserve tonnage and grade is mainly due to favourable development on the 4200-foot level and drilling results below the 4050-foot level in the Eastern Ore Deposit.

In addition, it is estimated there are 1,661,000 tons of possible ore grading 1.97% copper compared to 2,814,000 tons grading 1.91% copper at the end of the prior year. This reduction is due primarily to the withdrawal from this category of remnant pillars and low grade ore blocks which cannot be economically mined and treated at present production costs.

EXPLORATION AND DEVELOPMENT

Results of diamond drilling in the Buhunga area south-east of the mine indicated mineralization in widely spaced holes. While the copper content is erratic, the ore is sufficiently encouraging to justify underground exploration and development which is planned for 1968.

At Bukangama, underground drilling has confirmed a substantial tonnage of above average grade ore below the 4050-foot level. The full potential of this area will only be known when development work from the planned shaft system is possible.

Diamond drilling carried out in all areas totalled 84,824 feet compared to 85,125 feet during the previous year.

Development work of all classes totalled 54,300 feet compared to 57,413 feet in 1966. The shortfall was due mostly to a continuing shortage of competent supervisory personnel.



An active program of outside exploration was continued, copper and nickel mineralization has been located in two main areas which are being further investigated.

CAPITAL EXPENDITURES

Expenditures on construction and replacement of fixed assets during the year consisted of the following:

Mining and milling equipment	\$ 950,816
Housing and amenities	178,374
Smelter and plant	110,309
General equipment and buildings	167,714
	<u>\$1,407,213</u>

The housing program at Kyunjuki and hospital extension were completed.

LABOUR

A new two year agreement with the Uganda Mine and Smelter Union effective as of November 30 was signed on December 15, 1967. The agreement provides for an increase of 11% in existing wage rates and fringe benefits in 1968 and 3.8% in 1969.

GENERAL

Your directors wish to record their appreciation of the services of Mr. P. N. Pitcher who recently resigned as a Director and Officer of the Company to assume a new position with a major corporation in the United States.

Mr. G. P. Mitchell has been appointed Vice-President of the Company and Mr. J. R. Smith, Vice-President Eastern Minerals Division of Falconbridge Nickel Mines Limited, has been appointed a Director in place of Mr. P. N. Pitcher.

ACKNOWLEDGEMENT

Your directors gratefully acknowledge the efficient services rendered by Mr. A. E. Pugsley, Chairman of the Board and Managing Director of Kilembe Mines Limited, and his staff.

On behalf of the Board,

G. T. N. WOODROOFFE,
President.

Toronto, Ontario,
March 1, 1968.

STATEMENT OF SOURCE AND APPLICATION OF CONSOLIDATED FUNDS

For the Year Ended December 31, 1967

(with comparative figures for the year ended December 31, 1966)

	<u>1967</u>	<u>1966</u>
FUNDS PROVIDED:		
From operations —		
Profit for the year before minority interest	\$ 844,106	\$4,882,803
Add charges to operations which in themselves did not require a current outlay of cash:		
Amortization of mining concessions	43,764	47,978
Amortization of development and preproduction expenditures	694,904	740,419
Depreciation	2,311,440	2,402,288
	<u>3,894,214</u>	<u>8,073,488</u>
 FUNDS APPLIED:		
Increase in inventory of materials and supplies	707,595	452,087
Purchase of fixed assets (net)	1,407,213	2,531,158
Dividend paid to minority shareholders of Kilembe Mines Limited ..	386,289	1,669,473
Dividends paid to shareholders	969,257	4,070,878
	<u>3,470,354</u>	<u>8,723,596</u>
Excess of funds provided over funds applied (funds applied over funds provided) during the year	423,860	(650,108)
Working capital, beginning of year	2,585,103	3,235,211
Working capital, end of year	<u>\$3,008,963</u>	<u>\$2,585,103</u>

See notes to consolidated financial statements

K I L E M B E

COPPER COBALT LTD.

(Incorporated under the laws of Canada)

AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

(Incorporated under the laws of Uganda)

CONSOLIDATED BALANCE SHEET

ASSETS

	1967	1966
CURRENT:		
Cash	\$ 1,705,741	\$ 2,229,142
Short term deposit	1,893,281	1,897,657
Metal settlements receivable (note 2)	928,976	955,441
Accounts receivable	420,208	493,143
Copper on hand and in process (note 2)	475,183	340,014
Total current assets	5,423,389	5,915,397
FIXED AND INTANGIBLE ASSETS:		
Mining concessions, at cost	479,778	
Less accumulated amortization	479,778	
		43,764
Plant and equipment, at cost	25,813,482	
Less accumulated depreciation	17,804,800	
	8,008,682	8,912,909
Development and preproduction expenses	7,404,195	
Less accumulated amortization	7,404,195	
		694,904
Materials and supplies, at average cost	4,457,101	3,749,506
	<u>\$17,889,172</u>	<u>\$19,316,480</u>

AUDITORS'

To the Shareholders of
Kilembe Copper Cobalt Ltd.:

We have examined the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary, Kilembe Mines Limited, as at December 31, 1967 and the statements of consolidated earnings and deficit and source and application of consolidated funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
February 21, 1968.



DECEMBER 31, 1967 (with comparative figures at December 31, 1966)

LIABILITIES

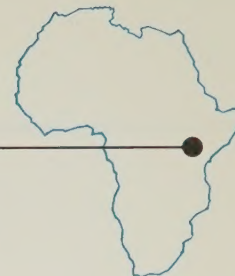
	1967	1966
CURRENT:		
Accounts payable and accrued charges	\$ 1,338,822	\$ 1,205,643
Provision for leave pay and passages	269,890	175,023
Provision for Uganda mining royalties (note 3)	33,319	380,268
Provision for Uganda income taxes (note 3)	772,395	1,569,360
Total current liabilities	2,414,426	3,330,294
Minority shareholders' interest in subsidiary company (30%)	4,065,820	4,206,949
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized: 5,000,000 shares of par value \$1.00 each		
Issued: 3,877,027 shares	3,877,027	3,877,027
Contributed surplus	8,193,887	8,193,887
	12,070,914	12,070,914
Deficit	661,988	291,677
	11,408,926	11,779,237
On behalf of the Board:		
G. T. N. WOODROOFFE, Director.		
J. T. McWHIRTER, Director.		
	\$17,889,172	\$19,316,480

See notes to consolidated financial statements

REPORT

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants



AND ITS SUBSIDIARY
KILEMBE MINES LIMITED

STATEMENT OF CONSOLIDATED EARNINGS AND DEFICIT

For the Year Ended December 31, 1967
(with comparative figures for the year ended December 31, 1966)

	1967	1966
Metal sales	\$17,927,358	\$21,927,072
Deduct transportation, refining and selling expenses	1,683,187	2,339,233
Net proceeds from metal sales	<u>16,244,171</u>	<u>19,587,839</u>
Operating and administration costs:		
Development, mining, milling, smelting and mine office administration	11,159,974	10,054,723
Parent company administration	57,167	58,691
	<u>11,217,141</u>	<u>10,113,414</u>
Operating profit before the undernoted items	<u>5,027,030</u>	<u>9,474,425</u>
Amortization of mining concessions	43,764	47,978
Amortization of development and preproduction expenses	694,904	740,419
Depreciation	2,311,440	2,402,288
Prospecting and exploration expenses	178,086	230,294
	<u>3,228,194</u>	<u>3,420,979</u>
Operating profit	<u>1,798,836</u>	<u>6,053,446</u>
Other income (expense):		
Interest (net)	186,310	194,275
Profit (loss) on foreign exchange	(130,201)	22,764
	<u>56,109</u>	<u>217,039</u>
Profit before Uganda mining royalties and income taxes	1,854,945	6,270,485
Provision for Uganda mining royalties and income taxes (note 3)	1,010,839	1,387,682
Profit before minority interest	844,106	4,882,803
Less minority shareholders' interest in profit of subsidiary	245,160	1,447,889
Earnings for the year (note 3)	598,946	3,434,914
Retained earnings (deficit), beginning of year	(291,677)	344,287
	<u>307,269</u>	<u>3,779,201</u>
Deduct dividends paid of \$0.25 per share (1966 — \$1.05)	969,257	4,070,878
Deficit, end of year	<u>\$ 661,988</u>	<u>\$ 291,677</u>

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kilembe Mines Limited (incorporated under the laws of Uganda) which is 70% owned and is the only company in which Kilembe Copper Cobalt Ltd. has any material direct or indirect interest.

Most of the expenditures and liabilities of Kilembe Mines Limited have been incurred in pounds sterling or in East African currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Fixed and intangible assets and share capital	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Accumulated provisions for depreciation and amortization	At rates of exchange based on those prevailing when the expenditures on the related fixed and intangible assets were made.
Other assets and liabilities	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses other than depreciation and amortization	At the average monthly rates of exchange in effect during the year.
Provisions for depreciation and amortization	At the rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made.

2. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in process of production between the mill and the completion of the smelter operation and blister copper awaiting shipment. Inventories of copper concentrates are priced at the lower of cost or estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract, and is transferred to "metal settlements receivable" as shipped. Prior to shipment blister copper is included in copper inventory and priced at estimated realizable value; at December 31, 1967 blister copper in the inventory amounted to \$ Nil (at December 31, 1966 — \$148,250).

3. MINING ROYALTIES AND INCOME TAXES

Kilembe Copper Cobalt Ltd. is exempt from payment of Canadian income tax while it maintains its status as a "foreign business corporation" under the provisions of the Income Tax Act (Canada). The provision for Uganda mining royalties and income taxes consists of:

	1967	1966
Provision for mining royalties — current year	\$ 33,132	\$ 180,012
Provision for income taxes — current year	768,060	1,402,711
	<hr/> 801,192	<hr/> 1,582,723
Adjustments re prior years	209,647	(195,041)
	<hr/> \$1,010,839	<hr/> \$1,387,682

4. STATUTORY INFORMATION

Expenses in the statement of consolidated earnings and deficit include remuneration of directors and senior officers of \$8,170 in 1967 and \$8,131 in 1966.

